



The Commonwealth of Massachusetts

**DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY**

December 22, 2005

D.T.E. 05-32

Petition of Fitchburg Gas and Electric Light Company d/b/a Unitil, pursuant to G.L. c. 164, § 94A, for approval by the Department of Telecommunications and Energy of the renewal of Contract No. 2915 with the Tennessee Gas Pipeline Company to meet demand requirements of its firm customers.

APPEARANCES:

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FOR: FITCHBURG GAS AND ELECTRIC LIGHT
COMPANY d/b/a UNITIL
Petitioner

I. INTRODUCTION

On April 20, 2005, Fitchburg Gas and Electric Light Company d/b/a Unitil (“Unitil” or the “Company”), pursuant to G.L. c. 164, § 94A, submitted a petition (“Petition”) to the Department of Telecommunications and Energy (“Department”) for approval of the renewal of Contract No. 2915 with the Tennessee Gas Pipeline Company (“Tennessee”) to meet demand requirements of its firm customers (the “Contract”). The Company states that the Contract had been presented to the Department as part of Unitil’s 2003 Integrated Gas Resource Plan (Petition at 2). See Fitchburg Gas and Electric Light Company, D.T.E. 03-52 (2004).

According to Unitil, the renewal of the Contract will allow the current capacity level for city gate delivery at 14,057 Dth per day to be maintained through March 2007 (Exh. FGE-RAM-1, at 6). The Company also states that the renewal of the Contract provides Unitil with supply and price flexibility unavailable with other options (id. at 10). The Contract will renew for a term of five years, effective March 31, 2006 (Exh. FGE-RAM-6, at 1). The Contract covers a period in excess of one year and is therefore subject to the Department’s jurisdiction under G.L. c. 164, § 94A. This case has been docketed as D.T.E. 05-32.

On July 7, 2005, pursuant to notice duly issued, the Department conducted a public hearing to afford interested persons the opportunity to comment on the Company’s Petition. No comments on the Company’s Petition have been presented to the Department. The Department granted the Petition for Leave to Participate as a Limited Participant of KeySpan Energy Delivery New England. The evidentiary record consists of five exhibits, which are Unitil’s responses to information requests.

II. BACKGROUND

On April 24, 2003, the Department stamp-approved Unitil's proposed implementation plan to restructure its capacity contracts and storage contract with Tennessee and enter into related contractual commitments ("TGP Contract Restructuring Plan"). Fitchburg Gas and Electric Light Company, D.T.E. 02-85 (2003). In that filing, Unitil notified the Department that the Company was required to give renewal notification one year prior to the termination dates for the Tennessee contracts, and that the Company needed to make decisions regarding renewal of capacity contracts prior to the completion of the regulatory review process (TGP Contract Restructuring Plan at 2-3). As part of the TGP Contract Restructuring Plan, Unitil notified the Department that it planned to take advantage of the renewal options available to the Company under existing capacity contracts, while transferring small increments of long-haul capacity to short-haul capacity where appropriate to improve the economics, diversity and flexibility of the portfolio (id.)

On May 9, 2003, Unitil filed with the Department its 2003 Integrated Gas Resource Plan for the forecast period 2002-2003 through 2006-2007 ("Supply Plan").¹ In the Supply Plan, the Company stated that it had contracted with Tennessee for transportation services under rate schedule FT-A, for long-haul transportation, and rate schedule FS, for storage service (Exh. FGE-RAM-5, at 80, 82). In the Supply Plan filing, the Company also indicated that it was required to make renewal elections one year prior to the termination dates of each of

¹ On October 31, 2003, the Company filed with the Department an updated 2003 Integrated Gas Resource Plan.

the Tennessee contracts (id. at 82). The Company stated that the renewal election date for Contract No. 2915 was March 31, 2005, or earlier (id.). The renewal option for Contract No. 2915 is for a maximum term of five years (id. at 81; Exh. FGE-RAM-3, at 1). The Department approved the Company's Supply Plan on August 13, 2004. Fitchburg Gas and Electric Light Company, D.T.E. 03-52 (2004).

On March 22, 2005, Unitil notified Tennessee in writing that the Company had elected to extend the term of Contract No. 2915 for a term of five years effective March 31, 2006 (Exh. FGE-RAM-4). The Contract would have automatically renewed for a term of five years if Unitil did not notify Tennessee of a valid election by March 31, 2005 (Exh. FGE-RAM-3, at 1).

III. POSITION OF THE COMPANY

The Company seeks Department approval of its election to renew Contract No. 2915 for a period of five years effective March 31, 2006 (Petition at 1). The Company states that the TGP Contract Restructuring Plan, which was stamp approved by the Department on April 23, 2003, authorized Unitil to renew its existing capacity contracts and streamline smaller capacity contracts, thus allowing the Company to develop a more flexible and efficient portfolio (id. at 2). Subsequently, the Department approved the Company's Supply Plan which stated that the Company was required to make renewal elections one year prior to the termination dates of each of the Tennessee contracts, with the next renewal date prior to March 31, 2005, for Contract No. 2915 (id. at 3). Unitil asserts that, pursuant to G.L. c. 164, § 94A, it is requesting approval of the extension of Contract No. 2915 in order to balance the

Department's requirements for approval of Contract No. 2915 with Tennessee's procedures for requesting capacity renewals, which do not provide time for Department review (Petition at 3).

Unitil's goal is to renew capacity contracts for staggered periods, renewing contracts with more than one renewal for shorter terms (Exh. FGE-RAM-1, at 4). The Company states that where a contract has only one remaining renewal option, as does Contract No. 2915, Unitil's strategy is to renew the contract for the maximum period in order to take full advantage of the renewal option (id. at 4-5). As stated in the TGP Contract Restructuring Plan, the Company believes this approach will provide time for further development of competition in the natural gas industry in Massachusetts, without requiring Unitil's customers to bear the risks of committing to capacity which may not be required in the future (id. at 5). This strategy is consistent with the Resource Planning Guidelines in the Company's Supply Plan (id.; Exh. FGE-RAM-5).

The Company states that in order to meet firm sales customer requirements, the Company had two options: (1) renew Contract No. 2915; or (2) increase the amount of onsite peaking supplies, either liquefied natural gas ("LNG") or liquefied propane gas ("LP"), which would require the trucking of additional LNG and LP into these facilities (Exh. FGE-RAM-1, at 7). After a detailed analysis comparing the total cost of delivering gas to Unitil's citygate for supplies delivered on Contract 2915, Zone 0 and L, to on site peaking LNG and LP supplies, the Company determined that renewal of Contract No. 2915 was the least cost alternative (id. at 7-8; Exh. FGE-RAM-7). Unitil asserts that the renewal of the Contract: (1) is consistent with the TGP Contract Restructuring Plan approved in D.T.E. 02-85 and the portfolio objectives established in the Company's Supply Plan approved in D.T.E. 03-52 and;

(2) compares favorably to the range of alternatives reasonably available to the Company and its customers (Petition at 4).

IV. DISCUSSION

II Standard of Review

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local gas distribution company ("LDC") must show that the acquisition (1) is consistent with the company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the company at the time of the acquisition or contract renegotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved forecast and requirements plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at

the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objectives including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

B. Analysis and Findings

On April 24, 2003, the Department stamp approved Unitil's proposed implementation plan to restructure its capacity contracts and storage contract with Tennessee and to enter into related contractual commitments ("TGP Contract Restructuring Plan"). Fitchburg Gas and Electric Light Company, D.T.E. 02-85 (2003). In that filing, Unitil notified the Department that the Company was required to give renewal notification one year prior to the termination dates for the Tennessee contracts and that the Company needed to make decisions regarding renewal of capacity contracts prior to the completion of the regulatory review process (id. at 2-3). Contract No. 2915 was part of the TGP Contract Restructuring Plan.

In August 2004, the Department approved Fitchburg's 2003 Integrated Gas Resource Plan which also included Contract No. 2915. Fitchburg Gas and Electric Light Company, D.T.E. 03-52 (2004). In the Supply Plan, the Company again indicated that it was required to make renewal elections one year prior to the termination dates of each of the Tennessee contracts (Exhs. FGE-RAM-5, at 80, 82; FGE-RAM-3, at 1). Contract No. 2915 was next up for renewal with a renewal date prior to March 31, 2005, and a renewal option for a maximum term of five years (id.). The Department determined Unitil's portfolio of resources to be adequate to meet forecasted sendout requirements. Fitchburg Gas and Electric Light Company, D.T.E. 03-52, at 22-23 (2004). Given that the Department approved the TGP

Contract Restructuring Plan and Supply Plan, inclusive of Contract No. 2915, the Department finds that the renewal of Contract No. 2915 is consistent with the Company's portfolio objectives.

With regard to whether the renewal of Contract No. 2915 compares favorably to the range of alternative options reasonably available to the Company at the time of contract renegotiation, the record shows that the Company performed an analysis comparing commodity and capacity charges using either pipeline supplies delivered through Tennessee Gas Pipeline Contract No. 2915 or on site peaking supplies (Exh. FGE-RAM-1, at 7, 8). As a result of its analysis the Company determined that renewal of Contract No. 2915 was the least cost alternative (id. citing Exh. FGE-RAM-7). The results of the Company's analysis also indicated that the proposed contract renewal enhances the flexibility of Fitchburg's supply and will enable the Company to provide safe, reliable, and least cost service to its customers. (Exh. FGE-RAM-1, at 8-9). The proposed renewal also affords the Company the additional benefit of filling upstream storage during the warmer months of the year when the contract is not fully used to meet firm demand (id. at 10). The Department finds that the Company adequately evaluated the price and non-price factors of the Contract and the contribution of those factors to the strength of Unitil's overall portfolio. Accordingly, the Department finds that renewal of Contract No. 2915 compares favorably to the range of alternative options reasonably available to the Company at the time of renewal of Contract No. 2915.

V. ORDER

Accordingly, after notice, hearing and consideration, it is

ORDERED: That the Petition for approval of Fitchburg Electric Light Company's renewal of Contract No. 2915 with the Tennessee Gas Pipeline Company for a five-year period effective March 31, 2006, is GRANTED.

By Order of the Department,

_____/s/_____
Paul G. Afonso, Chairman

_____/s/_____
James Connelly, Commissioner

_____/s/_____
W. Robert Keating, Commissioner

_____/s/_____
Judith F. Judson, Commissioner

_____/s/_____
Brian Paul Golden, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).